

B

Appendix B – Preliminary Draft Proposed Rules

This Appendix contains preliminary draft proposed amendments Sections of the existing Code of Federal Regulation that the members of CALLS at this time believe would be needed to implement the CALL plan. We provide these preliminary draft proposed rules in order to aid the Commission and parties wishing to understand and comment on the proposal. It should be noted that the draft amendments were made to existing Part 54, Part 61¹ and Part 69 Rules. We have compared these draft proposed rules against the existing rules to make clear the changes needed from current regulation to implement the proposed plan. In the event that all Price Cap companies do not sign onto this plan, we would recommend that new rules sections within Parts 61 and 69 be created containing the rules for those companies under this plan, and that the existing rules would remain intact for companies not choosing this plan. These preliminary draft rules are also written, for illustrative purposes, as if the initial changes were to be implemented January 1, 2000. The actual implementation date may need to be adjusted for Y2K implementation.

¹ The “current rules” in the Part 61 section are those rules as they stood prior to the 1998 Biennial Regulatory Review Report and Order, released August 3, 1999. In addition, in § 61.45(c), we have restated the formulas for readers’ clarity, and then made changes necessary for the implementation of this plan. It should be noted that changes to § 61.47, as requested in a Waiver filed by USTA in October 1997, would need to continue to implement the targeting proposed under this plan.

Appendix B

Part 54 Rules

PART 54

Subpart E - Universal Service Support for Low-Income Consumers

§54.403 Lifeline support amount.

(a) The federal baseline Lifeline support amount shall equal ~~\$3.50 per qualifying low-income consumer, the~~ tariffed rate in effect for the primary residential end user common line charge, as determined in accordance with § 69.152(d), for the qualifying low-income consumer. If the state commission approves an additional reduction of \$1.75 in the amount paid by consumers, additional federal Lifeline support in the amount of \$1.75 will be made available to the carrier providing Lifeline service to the consumer. Additional federal Lifeline support in an amount equal to one-half the amount of any state Lifeline support will be made available to the carrier providing Lifeline service to a qualifying low-income consumer if the state commission approves an additional reduction in the amount paid by that consumer equal to the state support multiplied by 1.5. ~~For the qualifying low-income consumer, the~~ The federal Lifeline support amount shall not exceed \$7.00 per qualifying low-income customer, the tariffed rate in effect for the primary residential end user common line charge plus \$3.50.

* * *

~~(d) In addition to the \$7.00 per qualifying low-income consumer described in paragraph (a) of this section, eligible incumbent local exchange carriers that serve qualifying low-income consumers who have toll blocking shall receive federal Lifeline support in amounts equal to the presubscribed interexchange carrier charge that incumbent local exchange carriers would be permitted to recover from such low-income consumers pursuant to § 69.153(b) of this chapter. Eligible incumbent local exchange carriers that serve qualifying low-income consumers who have toll blocking shall apply this support to waive qualifying low-income consumers' presubscribed interexchange carrier charges. A competitive eligible telecommunications carrier that serves qualifying low-income consumers who have toll blocking shall receive federal Lifeline support in an amount equal to the presubscribed interexchange carrier charge that the incumbent local exchange carrier in that area would be permitted to recover, if it served those consumers.~~

Subpart I - Explicit Funding of Universal Service Support Currently Embedded in Interstate Access Rates

§ 54.800 Terms and Definitions

(a) Average Price Cap CMT Revenue Per Line_{Study Area} has the same meaning as that term is defined in § 61.3(d).

(b) MAA Phase In Percentage is:

50% as of January 1, 2000,

75% as of January 1, 2001

100% as of July 1, 2002.

(c) Minimum Adjustment Amount (MAA) is defined in § 54.813(5).

(d) Minimum Delta (MD) is defined in § 54.813(3).

(e) Minimum Support Requirement (MSR) is defined in § 54.813(6).

(f) Nationwide Total Above Cap Revenues is defined in § 54.813(1).

(g) Preliminary Minimum Access USF_{study area} is the amount calculated pursuant to § 54.811.

(h) Preliminary Study Area Universal Service Support (PSAUSS) is defined in § 54.813(2).

(i) Study Area Above Cap Revenues is the sum of all Zone Above EUCL Cap Revenues for all zones in the study area.

(j) Study Area Access USF Support (SAAUS) is defined in § 54.813(7).

(k) Total National Minimum Delta (TNMD) is the nationwide sum of all study area Minimum Deltas.

(l) Total National Minimum Support Requirement (TNMSR) is the sum of the MSR for all price cap incumbent LEC study areas.

(m) Zone Above EUCL Cap Revenues is defined in § 54.812(a)(3).

(n) Zone Average Revenue per Line. The amount calculated as follows:
Zone Average Revenue Per Line = (25% * (Loop_{zone price} + (Port)_{price})) + U where,

$$\begin{aligned} &\text{U(Uniform revenue per line Adjustment)} = \\ &\frac{((\text{Price Cap CMT Revenue Per Line}_{\text{study area}} * \text{Base Period Lines}) - (25\% * \\ &(\text{Lines}_{\text{LINE Zone}} * (\text{Loop}_{\text{zone price}} + \text{Port}_{\text{Price}} * 12) \text{ for each zone}))) \div \text{Base} \\ &\text{Period Lines}_{\text{Study Area(s)}} \div 12 \end{aligned}$$

Alternative 1:¹

Loop_{zone price} & Port_{price} are the rates for unbundled loop and switch ports in a given UNE zone.

Alternative 2:

Loop_{zone price} & Port_{price} are the average cost of a loop and a line port, calculated using an FCC-approved cost model, within each geographic zone within a study area for which a state has created geographically deaveraged UNE loop rates.

§54.801 General

(a) The total amount of universal service support under this Subpart for areas served by price cap incumbent LECs as of December 31, 1999, is a maximum of \$650 million per year, if all price cap incumbent LECs elect to participate and if no exchanges, other than those offered for sale prior to December 31, 1999, are sold to non-price-cap LECs.

(b) A price cap LEC may elect to participate in the support mechanism described in this Subpart for all its incumbent LEC study areas by filing a written statement of its intent to do so with the Commission by January 1, 2000, or, in the case of a transfer of control within the first six months of calendar year 2000, by June 30, 2000. Such a price cap LEC is a "participating price cap incumbent LEC." A price cap LEC may not elect to participate in this support mechanism unless it also elects to participate in the interstate access charge rules described in Parts 61.--- and 69.---. Nothing in this subsection alters a carrier's obligation, or the obligations of providers of interstate telecommunications, to contribute to universal service support pursuant to Section 54.706 and 54.709.

(c) Support that would be provided, if such incumbent LECs participated in this Subpart, to areas served by price cap incumbent LECs not electing to participate in this Subpart will not be distributed or collected.

(d) In the event that all or a portion of a study area served by a participating price cap LEC is sold to an entity other than a price cap LEC, and the study area or portion thereof was not offered for sale prior to December 31, 1999, then the support that would otherwise be provided under this Subpart, had such study area or portion thereof not been sold, will not be distributed or collected.

(e) In the event that a participating price cap LEC acquires additional exchanges within which it is an incumbent LEC from an entity other than a price cap LEC, that acquisition should be reported to the Administrator pursuant to Section 54.803 and included in the determination of study area support for the acquiring price cap LEC.

¹ The parties disagree as whether the models or UNE prices should be used for this calculation, and will agree their respective positions to the Commission. Appendix A at 2.2.3.1.1(a).

§54.802 Qualification for Universal Service Support.

(a) In order to receive Study Area Access USF Support in excess of the Minimum Support Requirement, a participating price cap incumbent LEC must have established state-approved geographically deaveraged UNE Loops rates, according to geographic zones.

(b) A participating Price Cap Incumbent LEC may receive Portable Access USF Support Per Line if that LEC has submitted the information to the Administrator required pursuant to § 54.803.

(c) An Eligible Telecommunication Carrier that is not a price cap incumbent LECs but is providing service within areas served by a participating price cap incumbent LEC may receive Portable Access USF Support Per Line for service to end users within areas served by that participating price cap incumbent LEC by submitting the information detailed in § 54.803(d) to the Administrator.

§54.803 LECs Obligation to Report Universal Service Data

(a) All price cap incumbent LECs shall submit to the Administrator, in accordance with the schedule established by the Administrator, the following information:

(1) The Preliminary Minimum Access USF_{study area}:

(2) Zone Average EUCL Cap Revenues by zone for each Study Area within which the ILEC has established state-approved geographically deaveraged rates for UNE loops. When geographically deaveraged UNE loop rates are established or when the rates for such loops change, the ILEC must file revised Zone Average EUCL Cap Revenues calculations on or before 30 days prior to the beginning of the next quarter.

(b) All Eligible Telecommunications Carriers, including price cap incumbent LECs, that provide service within a study area of a participating price cap incumbent LEC must submit by customer classification, and by zones where zones exist, the number of access lines served in the ILEC study area to the Administrator.

§ 54.800 Universal Service Zones

(a) The zones used for determining universal service will be the same zones that would be used for EUCL deaveraging as described in §69.152(q)(i).

(b) In a price cap study area where the incumbent LEC has not established state-approved prices for Unbundled Network Elements (UNEs) loops by zone, the fund administrator shall develop an estimate of the ILEC's Zone Above EUCL Cap Revenues for transitional purposes, in order to reserve a portion of the fund for that study area. This estimate will be included by the Administrator in the Nationwide Study Area Above Cap Revenues calculated pursuant to §54.813.

(1) For the purpose of developing this transitional estimate, the loop and port costs estimated by the FCC cost model, or other substitute method if no model is available, shall be used.

(2) For the purpose of developing this transitional estimate, the administrator shall construct three zones. Wire centers within the study area will be grouped into these zones in such a way that each zone is assigned approximately one third of the lines in the study area, with the lowest cost wire centers assigned to Zone 1, the highest cost wire centers assigned to Zone 3, and the remainder to Zone 2.

§54.810 Portable Access USF Support

(a) Each Eligible Telecommunication Carrier (ETC) that provides local exchange service, except through the resale of ILEC retail services pursuant to 47 U.S.C. §254(c)(4), to an end user within the study area of a participating price cap incumbent LEC shall receive Portable Access USF Per Line for each end user line.

(b) In any study area within which the incumbent LEC has not established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is Study Area Access USF Support divided by total lines (both ILEC and CLEC-provided) in that study area.

(c) *Alternative 1 (Proportionate Allocation)*²

In any study area within which the incumbent LEC has established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is calculated as follows:

(1) Within each study area, determine the percentage proportion of Study Area Universal Service Support to Study Area Above Cap Revenues.

(2) Within each zone and customer class (i.e. residential/single line business and multiline business for each zone), Portable Access USF Support Per Line for that zone and customer class is Zone Above EUCL Cap Revenues for that customer class times Study Area Access USF Support divided by Study Area Above Cap Revenues, divided by the number of lines of the customer class within that zone using base period demand.

² Parties do not agree in the methods in establishing the portable per line amount. Alternative 1 proposes that the Interstate Access-related USF should be distributed proportionately among all “above EUCL-Cap” lines.

Alternative 2 (Highest Cost Zone First)³

In any study area within which the incumbent LEC has established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is calculated as follows. The support in each study area will be made portable for lines in the highest cost zone first, and will “cascade” to lines in lower cost zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, funding will be applied in the following order of priority:

(1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of \$9.20 or the Average Revenue Per Line in the next highest zone;

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than \$9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds \$9.20;

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of \$7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than \$7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds \$7.00.

This “cascade” process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the \$9.20 and \$7.00 caps, and available funding permits. The per-line amount assigned to each multiline business line in a given zone would then be portable among eligible telecommunications carriers, as would the per-line amount assigned to each residence line and each single line business line in that zone.

\$54.811 Preliminary Minimum Access USF_{Study Area}

(a) If Average Price Cap CMT Revenue Per Line_{Study Area} is greater than \$9.20 then:

Preliminary Minimum Access USF_{study area} = Price Cap CMT Revenue_{study area} - (((\$7.00 X Residential & Single Line Business Lines_{study area} X 12) + \$9.20 X Multiline Business Lines_{study area} X 12))

³ Parties do not agree in the methods in establishing the portable per line amount. Alternative 2 proposes the Interstate Access-related USF be distributed first to the highest cost lines.

(b) If Average Price Cap CMT Revenue Per Line_{Study Area} is greater than \$7.00 but less than \$9.20 then:

Preliminary Minimum Access USF_{study area} = (Average Price Cap CMT Revenue Per Line_{Study Area} - \$7.00) X (Residential & Single Line Business Lines_{study area} X 12)

(c) If Average Price Cap CMT Revenue Per Line_{Study Area} is less than \$7.00 then the Preliminary Minimum Access USF_{study area} is zero.

§54.812 Zone and Study Area Above EUCL Cap Revenues

(a) The following steps shall be performed by the Administrator to determine Zone Above EUCL Cap Revenues for each price cap incumbent LEC, whether or not participating.

(1) Calculate Average Price Cap CMT Revenue Per Line_{study area}.

(2) Calculate Zone Average Revenue Per Line.

(3) Calculate Zone Above EUCL Cap Revenues. Zone Above EUCL Cap Revenues is the sum of Zone Above EUCL Cap Revenues_{Residence&SingleLineBusiness} and Zone Above EUCL Cap Revenues_{MultilineBusiness}. Zone Above EUCL Cap Revenues_{Residence&SingleLineBusiness} is, within each zone, the product of Zone Average Revenue Per Line minus \$7.00 multiplied by line months. If negative, the Zone Above EUCL Cap Revenues_{Residence&SingleLineBusiness} for the zone is zero. Zone Above EUCL Cap Revenues_{MultilineBusiness} is, within each zone, the product of Zone Average Revenue Per Line minus \$9.20 multiplied by line months; if negative the Zone Above EUCL Cap Revenues_{MultilineBusiness} for the zone is zero. Or:

Zone Above EUCL Cap Revenues = ((Zone Average Revenue Per Line - \$7.00) X Residential & Single Line Business Lines_{study area} X 12) + ((Zone Average Revenue Per Line - \$9.20) X Multiline Business Lines_{study area} X 12)

Where Zone Average Revenue Per Line - \$7.00 > \$0.00, and Zone Average Revenue Per Line - \$9.20 > \$0.00)

(b) Study Area Above Cap Revenues is the sum of Zone Above EUCL Cap Revenues for all zones in the study area.

§54.813 Calculation of Study Area Access USF Support for Areas Served by Participating Price Cap LECs

The Administrator, based on the data submitted pursuant to § 54.812, shall calculate the Study Area Access Universal Service Support for areas served by participating Price Cap Incumbent LECs according to the following methodology:

(1) Calculate Nationwide Total Above Cap Revenues. Nationwide Total Above Cap Revenues is the sum of all Study Area Above Cap Revenues for all price cap ILECs, whether or not participating.

(2) Calculate Preliminary Study Area Universal Service Support (PSUAUSS).

(i) If the Nationwide Total Above Cap Revenues is greater than \$650 million, then the Preliminary Study Area Universal Service Support (PSUAUSS) equals the Study Area Above Cap Revenues multiplied by the ratio of \$650 million to Nationwide Total Above Cap Revenues (i.e. Preliminary Study Area Universal Service Support = Study Area Above Cap Revenues X (\$650 Million / Nationwide Total Above Cap Revenues).

If the Nationwide Total Above Cap Revenues is not greater than \$650 million, PSUAUSS equals the Study Area Above Cap Revenues.

(3) Calculate the Minimum Delta (MD) by study area. Within each study area the Minimum Delta will be equal to the Minimum Access USF_{Study Area} less the PSUAUSS, if the difference is greater than zero. If the difference is less than or equal to zero, the MD is equal to zero.

(4) Calculate the Total National Minimum Delta (TNMD) by summing all study area Minimum Deltas nationwide.

(5) Calculate the Minimum Adjustment Amount.

(i) If the TNMD is greater than \$75 million, then the Minimum Adjustment Amount (MAA) equals the product of the current phased in percentage times the MD by study area times the ratio of \$75 million to TNMD. Or:

Minimum Adjustment Amount = (MAA Phase In Percentage) X (Minimum Delta) X (\$75 million / Total National Minimum Delta).

(ii) If the TNMD is less than \$75 million, then the MAA equals the product of the MAA Phase In Percentage and the MD by study area.

(6) Calculate the Total National Minimum Support Requirement (TNMSR), which equals the sum of the MSR for all study areas. The Minimum Support Requirement for a study area is determined as follows:

(i) If the MAA of the study area is greater than zero then the MSR equals the PSUAUSS plus the MAA.

(ii) If the MAA is equal to zero, the MSR is the Preliminary Minimum Access USF_{Study Area}.

(7) Calculate Study Area Access USF Support (SAAUS).

(i) For study areas in which the MAA was zero, and within which the participating price cap incumbent LEC has established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is equal to:

Preliminary Study Area Universal Service Support x (\$650 million – TNMSR) ÷ \$650 million.

(ii) For study areas in which the MAA was zero, and within which the participating price cap incumbent LEC has not established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is the Preliminary Minimum Access USF_{StudyArea} calculated pursuant to 54.811.

(iii) For study areas in which the MAA was greater than zero, the SAAUS for that study area is the Minimum Support Requirement (MSR).

§54.814 Support When Providing Service.

An eligible telecommunications carrier shall receive payment of support pursuant to § 54.810 only for such months the carrier is actually providing service to the end user. The Administrator shall ensure that there is periodic reconciliation of support payments.

§54.815 Transition Provisions.

Study Area Access USF Support amounts for the area served by each participating price cap incumbent LEC will be recalculated on July 1, 2000, January 1, 2001 and thereafter as determined by the Administrator.

Appendix B

Part 61 Rules

§ 61.3 Definitions

(a) *Act*. The Communications Act of 1934 (48 Stat. 1004; 47 U.S.C. Chapter 5), as amended.

(b) *Actual Price Index (API)*. An index of the level of aggregate rate element rates in a basket, which index is calculated pursuant to § 61.46.

(c) *Association*. This term has the meaning given it in § 69.2(d)

(d) *Average Price Cap CMT Revenue per Line Month*. Price Cap CMT Revenue per Month as of December 31, 1999 (including the adjustments to be made pursuant to § 61.48(1)) using base period demand, divided by the base period demand number of lines as of December 31, 1999. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues (including the adjustments to be made pursuant to § 61.48(1)), Base Factor Portion (BFP) and lines as of December 31, 1999:

$$\frac{\text{PriceCapCMTRevenuePerLine}_{\text{StudyArea}}}{\text{PriceCapCMTRevenue}_{\text{FilingEntity}} \times (\text{BFP}_{\text{StudyArea}} \div \text{BFP}_{\text{FilingEntity}}) \div \text{Lines}_{\text{StudyArea}}} =$$

Nothing in this definition precludes a price cap local exchange carrier from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

Average Price Cap CMT Revenues Per Line may be adjusted after December 31, 1999 to reflect exogenous costs.

(e) *Average Traffic Sensitive Charge*. The Average Traffic Sensitive Charge will be calculated by taking the sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, switched Direct Trunked Transport, Signalling for switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signalling for Tandem Switching, and dividing that sum of revenues by total Local Switching minutes of use. If a new element is created from existing switched access rate elements (such as creating a call set-up charge out of the existing local switching rate element) the revenues anticipated from that element will be included in the calculation of the Average Traffic Sensitive Charge.

(f) *Band*. A zone of pricing flexibility for a service category, which zone is calculated pursuant to § 61.47.

(g) *Base period*. For carriers subject to §§ 61.41-49, the 12-month period ending six months prior to the effective date of annual price cap tariffs, or for carriers

regulated under § 61.50, the 24-month period ending six months prior to the effective date of biennial optional incentive plan tariffs. Base year or base period earnings shall not include amounts associated with exogenous adjustments to the PCI for the sharing or lower formula adjustment mechanisms.

(hf) **Basket.** Any class or category of tariffed service or charge:

(1) which is established by the Commission pursuant to price cap regulations;

(2) the rates of which are reflected in an Actual Price Index; and

(3) the related costs of which are reflected in a Price Cap Index.

(ig) **Change in rate structure.** A restructuring or other alteration of the rate components for an existing service.

(ih) **Charges.** The price for service based on tariffed rates.

(ki) **Commercial contractor.** The commercial firm to whom the Commission annually awards a contract to make copies of Commission records for sale to the public.

(lj) **Commission.** The Federal Communications Commission.

(mk) **Concurring carrier.** A carrier (other than a connecting carrier) subject to the Act which concurs in and assents to schedules of rates and regulations filed on its behalf by an issuing carrier or carriers

(nl) **Connecting carrier.** A carrier engaged in interstate or foreign communication solely through physical connection with the facilities of another carrier not directly or indirectly controlling by, or under direct or indirect common control with, such carrier.

(om) **Contract-based tariff.** A tariff based on a service contract entered into between an interexchange carrier subject to § 61.42 (a) through (c) or a nondominant carrier and a customer.

(pn) **Corrections.** The remedy of errors in typing, spelling or punctuation.

(qo) **Dominant carrier.** A carrier found by the Commission to have market power (i.e., power to control prices).

(rp) **GDP Price Index.** (GDP-PI). The estimate of the "Fixed Weight Price Index for Gross Domestic Product, 1987 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(seq) **GNP Price Index.** (GNP-PI). The estimate of the "Fixed-Weighted Price Index for Gross National Product, 1982 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(tfr) **Issuing carrier.** A carrier subject to the Act that publishes and files a tariff or tariffs with the Commission.

(u) **Line Month.** Line demand per month multiplied by twelve.

(vs) **Local Exchange Carrier.** Any person that is engaged in the provision of telephone exchange service or exchange access as defined in section 3(26) of the Act.

(wt) **New service offering.** A tariff filing that provides for a class or sub-class or service not previously offered by the carrier involved and that enlarges the range of service options available to ratepayers.

(xh) **Non-dominant carrier.** A carrier not found to be dominant.

(yv) **Other participating carrier.** A carrier subject to the Act that publishes a tariff containing rates and regulations applicable to the portion or through service it furnishes in conjunction with another subject carrier.

(z) **Price Cap CMT Revenue.** The maximum total revenue a filing entity would be permitted to receive from End User Common Line charges, Presubscribed Interexchange Carrier charges (PICCs), Carrier Common Line charges, and the portion of local switching reallocated to the Common Line basket pursuant to § 61.48(l). Price Cap CMT Revenue includes marketing expenses presently collected pursuant to § 69.156(a), and residual interconnection charge revenues collected through PICC charges, but it does not recover the current local exchange carrier universal service contributions as of December 31, 1999.

(aaw) **Price Cap Index (PCI).** An index of costs applying to carriers subject to price cap regulation, which index is calculated for each basket pursuant to §§ 61.44 or 61.45

(bbx) **Price cap regulation.** A method of regulation of dominant carriers provided in §§ 61.41 through 61.49.

(ccy) **Price cap tariff.** Any tariff filing involving a service that is within a price cap basket, or that requires calculations pursuant to §§ 61.44, 61.45, 61.46, or 61.47.

(ddz) **Productivity factor.** An adjustment factor used to make annual adjustments to the Price Cap Index to reflect the margin by which a carrier subject to price cap regulation is expected to improve its productivity to the economy as a whole.

~~(ccaa)~~ **Rate.** The tariffed price per unit of service.

~~(ffbb)~~ **Rate increase.** Any change in a tariff which results in an increased rate or charge to any of the filing carrier's customers.

~~(ggee)~~ **Rate level change.** A tariff change that only affects the actual rate associated with a rate elements, and does not affect any tariff regulations or any other wording of tariff language.

~~(hhdd)~~ **Regulations.** The body of carrier prescribed rules in a tariff governing the offering of service in that tariff, including rules, practices, classifications, and definitions.

~~(jjee)~~ **Restructured service.** An offering which represents the modification of a method of charging or provisioning a service; or the introduction of a new method of charging or provisioning that does not result in a net increase in options available to customers.

~~(jfff)~~ **Service Band Index (SBI).** An index of the level of aggregate rate element rates in a service category, which index is calculated pursuant to § 61.47.

~~(kkgg)~~ **Service category.** Any group of rate elements subject to price cap regulation, which group is subject to a band.

~~(llhh)~~ **Supplement.** A publication filed as part of a tariff for the purpose of suspending or canceling that tariff, or tariff publication and numbered independently from the tariff page series.

~~(mm)~~ **Target Rate.** \$0.0055 for former Bell Operating Companies and GTE.
\$0.0065 for other price cap local exchange carriers.

~~(nnii)~~ **Tariff.** Schedule of rates and regulations filed by common carriers.

~~(oojj)~~ **Tariff publication, or publication.** A tariff, supplement, revised page, additional page, concurrence, notice of revocation, adoption notice, or any other schedule of rates or regulations filed by common carriers.

~~(ppkk)~~ **Tariff year.** The period from the day in a calendar year on which a carrier's annual access tariff filing is scheduled to become effective through the preceding day of the subsequent calendar year.

~~(qqll)~~ **Text change.** A change in the text of a tariff which does not result in a change in any rate or regulation.

~~(rrmm)~~ **United States.** The several States and Territories, the District of Columbia, and the possessions of the United States.

(ss) **Zone Average Revenue per Line.** The Price Cap CMT Revenue per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue per Line is computed according to the following formula:

$$\text{Zone Average Revenue per Line} = (25\% * (\text{Loop}_{\text{Zone Price}} + \text{Port}_{\text{Price}})) + U$$

Where:

$$U (\text{Uniform Revenue per Line Adjustment}) = \frac{(\text{Price Cap CMT Revenue per line}_{\text{Study Area}} * \text{Base Period Lines}_{\text{Study Area}}) - (25\% * (\sum (\text{Lines}_{\text{UNE Zone}} * (\text{Loop}_{\text{Zone Price}} + \text{Port Price})_{\text{UNE Zone}} * 12) \text{ for each zone}))}{\text{Base Period Lines}_{\text{Study Area(s)}} \div 12} \text{ where:}$$

(Loop_{Zone Price})_{UNE Zone} = the UNE rates for unbundled loop

(Port_{Price})_{UNE Zone} = price for switch ports in that UNE zone.

§ 61.41 Price cap requirements generally.

(a) Sections 61.42 through 61.49 shall apply as follows:

(1) To dominant interexchange carriers, as specified by Commission order;

(2) To such local exchange carriers, as specified by Commission order, and to all local exchange carriers, other than average schedule companies, that are affiliated with such carriers; and

(3) On an elective basis, to local exchange carriers, other than those specified in paragraph (a)(2), that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.

(b) If a telephone company, or any one of a group of affiliated telephone companies, files a price cap tariff in one study area, that telephone company and its affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.

(c) The following rules apply to telephone companies subject to price cap regulation, as that term is defined in § 61.3(bb)61.3(w), which are involved in mergers, acquisitions, or similar transactions.

(1) Any telephone company subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.

(2) Where a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that is not subject to price cap regulation, the latter telephone company shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file price cap tariffs to be effective no later than the date in accordance with the applicable provisions of this Part 61.

(3) Notwithstanding the provisions of § 61.41(c)(2) above, when a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that qualifies as an "average schedule" company, the latter company may retain its "average schedule" status or become subject to price cap regulation in accordance with § 69.3(i)(3) and the requirements referenced in that section.

(d) Local exchange carriers that become subject to price cap regulation as that term is defined in § 61.3(w) shall not be eligible to withdraw from such regulation.

§ 61.42 Price cap baskets and service categories.

(a) Each dominant interexchange carrier subject to price cap regulation shall establish three baskets as follows:

- (1) A residential services basket
- (2) An 800 service basket; and
- (3) A business services basket.

(b) (1) The residential basket shall contain such services as the Commission shall permit or require, including the following service categories:

- (i) Domestic day MTS;
- (ii) Domestic evening MTS;
- (iii) Domestic night/weekend MTS ;
- (iv) International MTS;
- (v) Operator and credit card services; and
- (vi) Reach Out America.

(2) The 800 service basket shall contain 800 Directory Assistance:

- (i) Readyline 800;
- (ii) AT&T 800;
- (iii) Megacom 800,
- (iv) Other 800; and
- (v) 800 Directory Assistance.

(3) The business services basket shall contain analog private lines, including analog voice grade private line, unless provided under contract to a government entity, and terrestrial television transmission service.

(c) Dominant interexchange carriers subject to price cap regulation shall exclude the following offerings from their price cap baskets:

(1) Special construction services relating to services in § 61.42 (b)(1), (b)(2), and (b)(3);

(2) All other special construction services;

(3) American Telephone and Telegraph Company Tariff F.C.C. No. 11 services;

(4) American Telephone and Telegraph Company Tariff F.C.C. No. 12 services;

(5) American Telephone and Telegraph Company Tariff F.C.C. No. 16 services;

(6) Services subject to below-the-line accounting;

(7) International private line and record carrier services;

(8) Contract-based tariffs;

(9) Services removed from price cap regulation pursuant to the Report and Order in Docket No. 90-132;

(10) **[Removed and Reserved]**

(11) All other promotional offerings;

- (12) Custom tariff services;
- (13) Readyline 800 service;
- (14) AT&T 800 service;
- (15) Megacom 800 service;
- (16) Other 800 services;
- (17) Commercial services; and
- (18) Such other services as the Commission may specify.

(d) Each local exchange carrier subject to price cap regulation shall establish baskets of services as follows:

(1) A basket for the common line interstate access elements as described in §§ 69.115, 69.152, 69.154, and 69.157 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers common line interstate access revenues;

(2) A basket for traffic sensitive switched interstate access elements;

(3) A basket for trunking services as described in §§ 69.110, 69.111, 69.112, 69.114, 69.125(b), and 69.155 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers residual interconnection charge revenues;

(4) To the extent that a local exchange carrier specified in § 61.41(a)(2) or (3) offers interstate interexchange services that are not classified as access services for the purpose of part 69 of this chapter, such exchange carrier shall establish a fourth basket for such services.

(5) **[Removed and Reserved]**

(6) A basket for the marketing expenses described in § 69.156 of this chapter, including those recovered through End User Common Line charges and Presubscribed Interexchange Carrier charges.

(e) (1) The traffic sensitive switched interstate access basket shall contain such services as the Commission shall permit or require, including the following service categories:

(i) Local switching as described in § 69.106(f) of this chapter;

- (ii) Information, as described in § 69.109 of this chapter;
- (iii) Data base access services;
- (iv) Billing name and address, as described in § 69.128 of this chapter;
- (v) Local switching trunk ports, as described in § 69.106(f)(1) of this chapter; and
- (vi) Signalling transfer point port termination, as described in § 69.125(c) of this chapter.

(2) The trunking basket shall contain such transport and special access services as the Commission shall permit or require, including the following service categories and subcategories:

- (i) Voice grade entrance facilities, voice grade direct-trunked transport, voice grade dedicated signalling transport, voice grade special access, WATS special access, metallic special access, and telegraph special access services;

- (ii) Audio and video services;

- (iii) High capacity flat-rated transport, high capacity special access, and DDS services, including the following service subcategories:

- (A) DS1 entrance facilities, DS1 direct-trunked transport, DS1 dedicated signalling transport, and DS1 special access services; and

- (B) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport, and DS3 special access services;

- (iv) Wideband data and wideband analog services;

- (v) Tandem-switched transport, as described in § 69.111 of this chapter;

- (vi) Interconnection charge, as recovered in §§ 69.153 and 69.155 of this chapter; and

(vii) Signalling for tandem switching, as described in § 69.129 of this chapter.

(f) Each local exchange carrier subject to price cap regulation shall exclude from its price cap baskets such services or portions of such services as the Commission has designated or may hereafter designate by order.

(g) New services, other than those within the scope of paragraphs (c) and (f) of this section, must be included in the affected basket at the first annual price cap tariff filing following completion of the base period in which they are introduced. To the extent that such new services are permitted or required to be included in new or existing service categories within the assigned basket, they shall be so included at the first annual price cap tariff filing following completion of the base period in which they are introduced.

* * *

§ 61.45 Adjustments to the PCI for local exchange carriers.

(a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.

(b) Adjustments to local exchange carrier PCIs for the baskets designated in § 61.42(d) (2), (3), (4), and (6) shall be made pursuant to the formula set forth in § 61.44(b), and as further explained in § 61.44 (e), (f), (g), and (h).

(1) Notwithstanding the value of X defined in § 61.44(b), the X value applicable to the baskets specified in § 61.42(d) (2), (3), and (6) shall be 6.5%, to the extent necessary to reduce a tariff entity's Average Traffic Sensitive Charge to the Target Rate for the first time. Once an ILEC tariff entity's Average Traffic Sensitive Charge is equal to the Target Rate for the first time (the former NYNEX telephone companies may be treated as a separate tariff entity), then, except as provided in paragraph (2), X is equal to GDP-PI and no further reductions will be mandated.(i.e. if applying the full X-factor reduction for a given year would reduce the Average Traffic Sensitive Charge below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

For companies with separate tariff entities under a single cap, the following rules shall apply:

(i) Targeting amounts as defined in 61.45 (i)(1) shall be identified separately, using the revenue for each of the tariff entities under the cap.

(ii) Each tariff entity shall only be required to use the amount of targeting necessary to get to the \$0.0055 or \$0.0065 Target Rate.

(2) Once an ILEC achieves the following: 1) the Tariff Entity's Average Traffic Sensitive Charge has at least once reached the Target Rate, even if is subsequently deviated from the Target Rate pursuant to § 61.45(i)(4); 2) the Carrier Common Line and PICC rates are eliminated; and 3) the primary residential and single line business End User Common Line charge reaches the Average Price Cap CMT Revenue Per Line, the X-factor for the Common Line and Marketing baskets will equal GDP-PI as long as GDP-PI is less than or equal to 6.5% and greater than 0%. If GDP-PI is greater than 6.5%, the X-factor for the Common Line and Marketing baskets will equal 6.5%, and all End User Common Line charges will be increased by the difference between GDP-PI and the 6.5% X-factor. If GDP-PI is less than 0, the X-factor for the Common line and Marketing baskets will be 0.

(32)) For the basket specified in § 61.42(d)(4), the value of X for all local exchange carriers subject to price cap regulation, shall be 3.0%.

~~(3) [Removed and Reserved]~~

(c) Adjustments to local exchange carrier PCIs for the baskets designated in § 61.42(d)(1), (2), (3) and (4) shall be made pursuant to the following formulas:

(1) Common Line.

(i) Subject to paragraphs (c)(ii) ~~(e)(2)~~ and (e) of this section, adjustments to local exchange carrier PCIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w[(GDP-PI - X - (g/2))/(1 + (g/2))] + \Delta Z/R]$$

Where the terms in the equation are described in (c)(6) below

where

GDP-PI = the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year;

X = productivity factor of 6.5%;

g = the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, minus 1;

ΔZ = ~~the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1} , measured at base period level of operations;~~

R = ~~base period quantities for each rate element "i", multiplied by the price for each rate element "i" at the time the PCI was updated to PCI_{t-1} ;~~

w = ~~$R + \Delta Z$, all divided by R ;~~

PCI_t = ~~the new PCI value, and~~

PCI_{t-1} = ~~the immediately preceding PCI value.~~

(ii2) The formula set forth in paragraph (c)(1)(i) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier PCIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth below; § 61.44(b), and paragraphs (i) and (j) of this section, and as further explained in § 61.44 (e), (f), (g), and (h). For the purposes of this paragraph, and notwithstanding the value of X defined in § 61.44(b), the X value applicable to the basket specified in § 61.42(d)(1) shall be 6.5%.

$$PCI_t = PCI_{t-1} / [1 + w / (GDP-PI - X) + \Delta Z / R]$$

where the terms in the equation are described in section (c)(6) below.

(2) Adjustments to local exchange carrier PCIs for the Traffic Sensitive basket designated in § 61.42(d)(2) shall be made as follows:

$$PCI_t = PCI_{t-1} / [1 + w / (GDP-PI - X) + \Delta Z / R]$$

where the terms in the equation are described in section (c)(6) below.

(3) Adjustments to local exchange carriers' PCIs for the Trunking basket designated in § 61.42(d)(3) shall be made as follows:

$$PCI_t = PCI_{t-1} / [1 + w / (GDP-PI - X) + \Delta Z / R]$$

where the terms in the equation are described in section (c)(6) below.

(4) Adjustments to local exchange carriers' PCIs for the Interexchange basket designated in § 61.42(d)(4) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w_{ix} [(GDP-PI - X) + \Delta Y/R + \Delta Z/R]]$$

where the terms in the equation are described in section (c)(6) below.

(5) Adjustments to local exchange carriers' PCIs for the Marketing basket designated in § 61.42(d)(6) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1} [1 + w [(GDP-PI - X) + \Delta Z/R]]$$

where the terms in the equation are described in section (c)(6) below.

(6) PCI term definitions. PCI formulas in sections (c)(1) through (c)(5), above, contain some or all of the following components, which are defined here:

GDP-PI = For annual filings only, the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year. For all other filings, the value is zero.

X = For the Common Line, Traffic Sensitive, Trunking, and Marketing baskets, for Annual Filings only, the factor set at the level prescribed in subsection (b)(1)-(2). For the Interexchange Basket, for annual filings only, the factor is set at the level prescribed in subsection (b)(3). For all other filings, the value is zero.

g = For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1. For all other filings, the value is zero.

ΔZ = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1} , measured at base period level of operations.

ΔY = (new access rate - access rate at the time the PCI was updated to PCI_{t-1}) x (base period demand), summed for all access rate elements.

R = base period quantities for each rate element "I", multiplied by the price for each rate element "I" at the time the PCI was updated to PCI_{t-1} .

w = $R + \Delta Z$, all divided by R (used for the common line, traffic sensitive, trunking, and marketing baskets).

$w_{ix} = R - (\text{access rate in effect at the time the PCI was updated to } PCI_{t-1} \times \text{base period demand}) + \Delta Z, \text{ all divided by } R;$

$PCI_t =$ the new PCI value.

$PCI_{t-1} =$ the immediately preceding PCI value.

Targeted Reduction = the actual possible dollar value of the (GDP-PI - X) reductions that will be targeted to the Average Traffic Sensitive Charge (as defined in paragraph 61.45(i)(3) of this chapter).

(d) The exogenous cost changes represented by the term " ΔZ " in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

(i) the completion of the amortization of depreciation reserve deficiencies;

(ii) such changes in the Uniform System of Accounts, including changes in the Uniform System of Accounts requirements made pursuant to § 32.16 of this chapter, as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(iii) changes in the Separations Manual;

(iv) changes to the level of obligation associated with the Long Term Support Fund and the Transitional Support Fund described in § 69.612;

(v) the reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;

(vi) such tax law changes and other extraordinary cost changes as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(vii) as of January 1, 2000, the retargeting of the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark will be eliminated until January 1, 2005.

(viii) inside wire amortizations

(ix) the completion of amortization of equal access expenses.

(2) (i) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

(ii) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall not be subject to the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990, with respect to earnings accruing on or after July 1, 1997. This paragraph has no effect on any sharing obligation of any local exchange carrier relating to earnings accrued before July 1, 1997.

(3) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in § 61.45(d)(1)(iv) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(4) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.

(5) After January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(e) The " $w[(GDP-PI - X - (g/2))/(1 + (g/2))]$ " component of the PCI formula contained in paragraph (c)(1)(i) of this section shall be employed only in the adjustment made in connection with the annual price cap filing.

(f) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced.

(g) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § 61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

(h) [Removed and reserved.]

~~(i) — (1) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the baskets designated in § 61.42(d)(1) and (2) that result from the application of the formula in § 61.45(e), and pursuant to § 61.45(b), application of the formula in § 61.44(b) as further explained in § 61.44(e), (f), (g), and (h), to the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the baskets designated in § 61.42(d)(1) and (2) as a result of the application of the formula in § 61.44(b) and § 61.45(e). These reductions are to be made after the adjustment is made to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the formula in § 61.44(b), as further explained in § 61.44(e), (f), (g) and (h).~~

~~(2) Notwithstanding the provisions of paragraph (b) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the basket designated in § 61.42(d)(6) that result from the application of the formula in § 61.44(b), as further explained in § 61.44(e), (f), (g), and (h), to the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the basket designated in § 61.42(d)(6) as a result of the application of the formula in § 61.44(b). This reduction is to be made after any adjustment made pursuant to paragraph (i)(1) of this section.~~

~~(3) Through December 31, 1997, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1) and (d)(2) except for the provisions of paragraph (i)(1) of this section by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.~~

(4) Effective January 1, 1998, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1), (d)(2), and (d)(6), except for the provisions of paragraphs (i)(1) and (i)(2) of this section, by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.

(i) (1) Price cap local exchange carriers that are recovering revenues through rates pursuant to §§ 69.106, 69.108, 69.109, 69.110, 69.111, 69.112, 69.113, 69.118, 69.123, 69.124, 69.125, 69.129 or § 69.155 of this chapter shall target, to the extent necessary to reduce the Average Traffic Sensitive Charge to the Target Rate for the first time, any PCI reductions associated with the dollar impact of the Common Line, Traffic Sensitive, Trunking and Marketing baskets' GDP-PI and productivity factor, as those items are described in paragraph (c)(6) of this section. In order to calculate the actual dollars to transfer to the Trunking and Traffic Sensitive baskets, carriers will first determine a "Targeted Revenue Differential" by basket, and then determine the "Targeted Revenue Differential" that will be transferred to the Trunking and Traffic Sensitive baskets to reduce the Average Traffic Sensitive Charge to \$0.0055 or \$0.0065, whichever is applicable. Dollars that are transferred to the Trunking and Traffic Sensitive baskets from the Common Line, Traffic Sensitive, Trunking and Marketing baskets shall not be used to reduce the PCIs in those baskets. Before determining the portion of Targeted Revenue Differential that will be targeted to the reduction of the Average Traffic Sensitive Charge, from the Common Line, Traffic Sensitive, Trunking and Marketing baskets, price cap local exchange carriers shall first calculate the Targeted Revenue Differential associated with the Common Line, Traffic Sensitive, Trunking and Marketing baskets.

(i) the price cap local exchange carrier shall use the following formula:

$$\text{Targeted Revenue Differential} = R * (\text{GDP-PI} - X)$$

(2) Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting. However, after January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(3) Until a Tariff entity's Average Traffic Sensitive Charge equals the Target Rate for the first time, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets (less access reductions, if any, the ILEC chooses to apply as of July 1, 2001 to reduce Special Access rates, up to the amount of reductions Special Access would get through an untargeted application

of the X-factor adjustment) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(i) To the residual per minute Transport Interconnection Charge, until that rate is \$0.00; then

(ii) To the Information Surcharge, until that rate is \$0.00; then

(iii) To the Local Switching charge and Switched Transport charges until the tariff entity's Average Traffic Sensitive Rate equals the Target Rate for the first time. In making these reductions, the reductions to Local Switching rates as a percentage of total X-factor reductions must be greater than or equal to the percentage proportion of Local Switching revenues to the total sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, Switched Direct Trunked Transport, Signalling for Switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, and Signalling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

(4) After an ILEC reaches the Target Rate level, the Average Traffic Sensitive Rate will be recalculated each Annual Filing following. This process will identify the new Average Traffic Sensitive Charge for the new base period level. Due to change in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a tariff entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that tariff entity will be measured against during that base period. For example, if a company was at \$0.0055 during the 2000 Annual Filing, that level may change to \$0.0058 in the 2001 Annual filing due to demand and new services. Therefore, it will be the \$0.0058 that the tariff entity will be measured against for all non-annual filings. Likewise, if a company was at \$0.0055 during the 2000 filing, that level may change to \$0.0053 in the 2001 Annual Filing due to demand and new services. In that case, it will be the \$0.0053 level that the tariff entity will be measured.

~~(j) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(2) of this section and §61.47(i)(1) and (i)(2), local exchange carriers shall:~~

~~(1) Compute their anticipated residual interconnection charge amount by excluding revenues that are expected to be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11~~

~~percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge than required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the excess targeting.~~

~~(2) Not include the amount of any exogenous adjustments reflected in the z component of the formulas in §§ 61.44(b) and 61.45(e). Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting.~~

(j) [Removed and Reserved.]

(k) The calculation of the PCI for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

(l) The calculation of the PCI for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

§ 61.46 Adjustments to the API.

(a) Except as provided in paragraphs (d) and (e) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1} [\sum v_i (p_i/p_{t-1})^i]$$

where

API_t = the proposed API value;

API_{t-1} = the existing API value,

p_i = the proposed price for rate element "i"

p_{t-1} = the existing price for rate element and "i"

v_i = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate

element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

(b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.

(c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

(d) (1) Subject to paragraph (d)(2) of this section, and in connection with any price cap tariff proposing changes to rates for services in the basket designated in § 61.42(d)(1), the maximum allowable carrier common line (CCL) charges shall be computed pursuant to the following methodology:

$$CCL_{MOU} = \frac{CL_{MOU} * (1 + \% \text{ change in CL PCI}) - (EUCL_{MOU} + PICC_{MOU})}{1 + (g/2)}$$

where

CCL_{MOU} = the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,

CL_{MOU} = the sum of each of the existing maximum allowable Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, plus each existing maximum allowable End User Common Line (EUCL) rate multiplied by its corresponding base period lines, plus the common line portion of each existing maximum allowable Presubscribed Interexchange Carrier Charge (PICC) multiplied by its corresponding base period lines, divided by the sum of all types of base period Carrier Common Line minutes of use,

$EUCL_{MOU}$ = maximum allowable End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use,

$PICC_{MOU}$ = the common line portion of maximum allowable Presubscribed Interexchange Carrier charge rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use, and

g = the ratio of minutes of use per access line during the base period to minutes of use per access line during the previous base period, minus 1.

(2) The formula set forth in paragraph (d)(1) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a per-minute carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier APIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth in paragraph (a) of this section.

(e) (1) In addition, for the purposes of paragraph (d) of this section, "Existing Carrier Common Line Rates" shall include existing originating premium, originating non-premium, terminating premium and terminating non-premium rates; and "End User Common Line Rates" used to calculate the CL_{MOU} and the $EUCL_{MOU}$ factors shall include, but not be limited to, Residential and Single Line Business rates, Centrex rates, and the Special Access surcharge.

(2) For purposes of paragraph (d) of this section, "each existing Presubscribed Interexchange Carrier Charge" shall include all the charges specified in § 69.153 of this chapter.

(f) The " $1/(1 + (g/2))$ " component of the CCL_{MOU} formula contained in paragraph (d) shall be employed only in the adjustment made in connection with the annual price cap filing.

(g) The calculation of the API for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter

(h) The calculation of the API for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

§ 61.47 Adjustments to the SBI; pricing bands.

(a) In connection with any price cap tariff filing proposing changes in the rates of service categories or subcategories, the carrier must calculate an SBI value for each affected service category or subcategory pursuant to the following methodology:

$$SBI_t = SBI_{t-1}[\sum_i v_i (p_t/p_{t-1})^i]$$

where

SBI_t = the proposed SBI value,

SBI_{t-1} = the existing SBI value,

p_t = the proposed price for rate element "i,"

p_{t-1} = the existing price for rate element "i,"

and

v_i = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for rate element "i" priced at the existing rate, to the base period demand for the entire group of rate elements comprising the service category priced at existing rates.

(b) New services that are added to existing service categories or subcategories must be included in the appropriate SBI calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the SBI.

(c) In the event that the introduction of a new service requires the creation of a new service category or subcategory, a new SBI must be established for that service category or subcategory beginning at the first annual price cap tariff filing following completion of the base period in which the new service is introduced. The new SBI should be initialized at a value of 100, corresponding to the service category rates in effect the last day of the base period, and thereafter should be adjusted as provided in paragraph (a) of this section.

(d) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the affected SBI pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates in the rate element group into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

(e) Pricing bands shall be established each tariff year for each service category and subcategory within a basket. Except as provided in paragraphs (f), (g), and (h) of this section, each band shall limit the pricing flexibility of the service category or subcategory, as reflected in the SBI, to an annual increase of five percent, relative to the percentage change in the PCI for that basket, measured from the levels in effect on the last day of the preceding tariff year. For local exchange carriers subject to price caps as that term is defined in § 61.3(x), there shall be no lower pricing band for any service category or subcategory.

(f) Dominant interexchange carriers.

(1) The upper pricing bands for the evening MTS and night/weekend MTS service categories shall limit the annual upward pricing flexibility for those service categories, as reflected in their SBIs, to four percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the preceding tariff year.

(2) Dominant interexchange carriers subject to price cap regulation shall calculate a composite average rate for services contained in the residential and small business services basket that are purchased by residential customers. Notwithstanding paragraph (f)(1) of this section, the annual upward pricing flexibility for this composite average rate shall be limited to one percent, relative to the percentage change in the PCI for the residential and small business services basket, measured from the last day of the preceding tariff year.

(g) Local Exchange Carriers -- Service Categories and Subcategories.

(1) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(x) shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate two separate subindexes: One for the DS1 services offered by such carriers and the other for the DS3 services offered by such carriers. The annual pricing flexibility for each of these two subindexes shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the special access services basket, measured from the last day of the preceding tariff year. There shall be no lower pricing band for these two subindexes.

(2) The upper pricing band for the tandem-switched transport service category shall limit the annual upward pricing flexibility for this service category, as reflected in its SBI, to two percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for the tandem-switched transport service category.

(3) The upper pricing band for the interconnection charge service category shall limit the annual upward pricing flexibility for this service category, as reflected in its SBI, to zero percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for the interconnection charge.

(4) Local exchange carriers subject to price cap regulation as that term is defined in § 61.3(x) shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate a separate subindex for the 800 data base vertical features offered by such carriers. The annual pricing flexibility for this subindex shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the traffic sensitive basket, measured from the last day of the preceding tariff year. There shall be no lower pricing band for this subindex.

(5) The upper pricing band for the “Signalling for tandem switching” service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to two percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for this service category.

(6) [Removed and Reserved]

(7) The initial level of the local switch trunk ports service category designated in § 61.42(e)(1)(v) shall be established to include those costs identified pursuant to § 69.106(f)(1) of this chapter. This level shall be assigned a value of 100, and thereafter must be adjusted as provided in paragraph (a) of this section, subject to the banding restrictions of paragraph (e) of this section.

(h) *Local exchange carriers -- density pricing zones.*

(1) In addition to the requirements of paragraphs (g)(1) and (g)(2) of this section, those local exchange carriers subject to price cap regulation that have established density pricing zones pursuant to § 69.123 of this chapter shall use the methodology set forth in paragraphs (a) through (d) of this section to calculate separate subindexes in each zone for each of the following groups of services:

(i) DS1 entrance facilities, DS1 direct-trunked transport, DS1 dedicated signalling transport, and DS1 special access services;

(ii) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport, and DS3 special access services;

(iii) voice grade entrance facilities, voice grade direct-trunked transport, and voice grade dedicated signalling transport, and (if the Commission, by order, designates such services as subject to competition) voice grade special access;

(iv) tandem-switched transport; and

(v) such other special access services that the Commission may designate by order.

(2) The annual pricing flexibility for each of the subindexes specified in paragraph (h)(1) of this section shall be limited to an annual increase of five percent, relative to the percentage change in the PCI for the trunking basket, measured from the levels in effect on the last day of the preceding tariff year. There shall be no lower pricing band for these subindexes.

(3) [Added; redesignated as (h)(2)]

(i) [Redesignated as (g)(4)]

(i) (1) Through December 31, 1997, notwithstanding the requirements of paragraph (a) of this section, and subject to the limitations of § 61.45(j), if a local exchange carrier is recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter, any reductions to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the provisions of § 61.45 (b) and the formula in § 61.44(b) and from the application of provision of § 61.45(i)(1) shall be directed to the SBI of the service category designated in § 61.42(e)(2)(vi).

(2) Effective January 1, 1998, notwithstanding the requirements of paragraph (a) of this section and subject to the limitations of § 61.45(j), if a local exchange carrier is recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter, any reductions to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.44(b) and from the application of the provisions of § 61.45(i)(1), and (i)(2) shall be directed to the SBI of the service category designated in § 61.42(e)(2)(vi).

(3) Through December 31, 1997, the SBI reduction required by paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) by the dollar amount associated with the SBI for the service category designated in

§ 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(4) Effective January 1, 1998, the SBI reduction required by paragraph (i)(2) of this section shall be determined by dividing the sum of the dollar amount of any PCI reduction required by § 61.45(i)(1) and (i)(2), by the dollar amount associated with the SBI for the service category designated in § 61.42(e)(2)(vi), and multiplying the SBI for the service category designated in § 61.42(e)(2)(vi) by one minus the resulting ratio.

(5) Effective January 1, 2000, notwithstanding the requirements of paragraph (a) of this chapter and subject to the limitations of § 61.45(i), if a local exchange carrier is recovering an Average Traffic Sensitive Charge greater than the respective Target Rates of \$0.0055 or \$0.0065, any reductions to the PCI for the Traffic Sensitive or Trunking baskets designated in §§ 61.42(d)(2) and (3) resulting from the application of the provisions of § 61.45(b), and the formula in § 61.45(c) and from the application of the provisions of §§ 61.45(i)(1), and (i)(2) shall be directed to the SBIs of the service categories designated in §§ 61.42(e)(1) and (2).

(j) The calculation of the SBI for the service category designated in § 61.42(e)(2)(vi) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

§ 61.48 Transition rules for price cap formula calculations.

(a) Dominant interexchange carriers subject to price cap regulation shall file initial price cap tariffs May 17, 1989, to be effective July 1, 1989.

(b) (1) In connection with the initial price cap tariff filing described in paragraph (a) of this section, each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of December 31, 1988.

(2) The PCI and API for offerings under § 61.42(b)(3) shall be assigned a value equal to 100, corresponding to rates in effect as of August 1, 1991. Dominant interexchange carriers subject to price cap regulation shall file new business basket index levels with the first business basket tariff transmittal that is filed subsequent to the effective date of this rule.

(c) Local exchange carriers subject to price cap regulation shall file initial price cap tariffs not later than November 1, 1990, to be effective January 1, 1991.

(d) (1) In connection with the initial price cap filing described in paragraph (c) of this section, each PCI, API, and SBI shall be assigned an initial value

prior to adjustment of 100, corresponding to the costs and rates in effect as of July 1, 1990.

(2) Carriers electing price cap regulation under § 61.41(a)(3) of this part in a year after 1991 shall file initial price cap tariffs not later than April 2 of the year of election, to be effective on July 1 of the year of election. Each PCI, API, and SBI shall be assigned an initial value prior to adjustment of 100, corresponding to the costs and rates in effect as of January 1 of the year of election.

(e) In connection with the initial price cap filing described in paragraph (c) of this section, initial PCI calculations shall be made without adjustment for any changes in inflation or productivity. Annual price cap filings incorporating the full values of the GNP-PI and productivity offsets will commence April 2, 1991, with a scheduled effective date of July 1, 1991.

(f) Local exchange carriers specified in § 61.41(a)(2) or (3) shall, in their initial price cap filings described in paragraph (c) of this section, adjust their PCIs through use of an exogenous cost factor to account for the represetation of the rate of return, effective January 1, 1991.

(g) Local Transport Restructure -- Initial Rates. Local exchange carriers subject to price cap regulation shall set initial transport rates, as defined in § 69.2(tt) of this chapter, according to the requirements set forth in §§ 69.108, 69.110, 69.111, 69.112, 69.124, and 69.125 of this chapter.

(h) Local Transport Restructure -- Price Cap Transition Rules.

(1) Definitions. The following definitions apply for purposes of paragraph (h) of this section:

"Effective date" is March 4, 1994.

"Initial restructured rates" are rates that are (or should have been) effective on the transport restructure date; and

"Revenue weight" of a given group of services included in a basket, service category, or subcategory is the ratio of base period demand for the given service rate elements included in the basket, service category, or subcategory priced at initial restructured rates, to the base period demand for the entire group of rate elements comprising the basket, service category, or subcategory priced at initial restructured rates.

"Transport restructure date" is the date on which local exchange carriers' initial transport rates, as defined in § 69.2(tt) of this chapter, became effective;

(2) Trunking Basket PCI and API.

(i) On the effective date, the PCI value for the trunking basket, as defined in § 61.42(d)(3), shall be computed by multiplying the API value for the special access basket on the day preceding the transport restructure date, by a weighted average of the following:

(A) The ratio of the PCI value that applied to the special access basket on the day preceding the transport restructure date, to the API value that applied to the special access basket on the day preceding the transport restructure date, weighted by the revenue weight of the special access services included in the trunking basket; and

(B) The ratio of the PCI value that applied to the traffic sensitive basket on the day preceding the transport restructure date, to the API value that applied to the traffic sensitive basket on the day preceding the transport restructure date, weighted by the revenue weight of the transport services included in the trunking basket.

(ii) On the effective date, the API value for the trunking basket referred to in § 61.42(e)(2) shall be equal to the API value for the special access basket on the day preceding the transport restructure date.

(3) Service Category and Subcategory Pricing Bands for Flat-Rated Transport and Special Access. From the effective date through the end of the tariff year, the following shall govern instead of §§ 61.47(e) and 61.47(g)(1). The pricing bands established for the voice grade and high capacity service categories referred to in §§ 61.42(e)(2)(i) and 61.42(e)(2)(iii), and the DS1 and DS3 service subcategories referred to in §§ 61.42(e)(2)(iii)(A) and 61.42(e)(2)(iii)(B), shall limit the pricing flexibility of the service category or subcategory, as reflected in its SBI, as follows:

(i) The upper pricing band shall be a weighted average of the following:

(A) The upper pricing band that applied to the special access services included in the category or subcategory on the day preceding the transport restructure date, weighted by the revenue weight of the special access services included in the category or subcategory; and

(B) 1.05 times the SBI value for the special access services included in the category or subcategory on the day preceding the transport restructure date, weighted by the revenue

weight of the transport services included in the category or subcategory.

(ii) The lower pricing band shall be a weighted average of the following:

(4) Tandem-Switched Transport and Interconnection Charge SBIs. On the effective date, the SBIs for the tandem-switched transport and interconnection charge service categories defined in § 61.42(e)(2)(v) and (vi) shall be assigned an initial value prior to adjustment of 100, corresponding to the initial restructured rates in those categories.

(5) Tandem-Switched Transport and Interconnection Charge Service Category Pricing Bands. From the effective date through the end of the tariff year, the following shall govern instead of § 61.47(g)(2) and (g)(3):

(i) The upper pricing band for the tandem-switched transport service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to two percent, measured from the initial restructured rates for tandem-switched transport. The lower pricing band for the tandem-switched transport service category shall limit the downward pricing flexibility for this service category, as reflected in its SBI, to ten percent, measured from the initial restructured rates for tandem-switched transport.

(ii) The upper pricing band for the interconnection charge service category shall limit the upward pricing flexibility for this service category, as reflected in its SBI, to zero percent, measured from the initial restructured rate for the interconnection charge.

(i) Transport and Special Access Density Pricing Zone Transition Rules.

(1) Definitions. The following definitions apply for purposes of this paragraph (i):

"Special access zone date" is the date on which a local exchange carrier tariff establishing divergent special access rates in different zones, as described in § 69.123(c) of this chapter, becomes effective.

"Transport zone date" is the date on which a local exchange carrier tariff establishing divergent switched transport rates in different zones, as described in § 69.123(d) of this chapter, becomes effective.

"Earlier date" is the earlier of the special access zone date and the transport zone date.